3 Top Canadian Stocks to Benefit From Trump's Economic Policies

Description

Trump's trade policies and anti-immigration rhetoric has sparked considerable fear among pundits for global financial markets. While there are considerable risks surrounding Trump's planned policies, including the significant impact that proposed trade barriers will have on foreign companies operating in the U.S., some foreign companies stand to benefit. Many of those include Canadian companies that have extensive U.S. exposure.

Let's take a closer look at three Canadian stocks that will benefit from a Trump presidency.

Now what?

The Canadian bank best positioned to benefit from Trump's policies is **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), because it has the highest proportion of its revenue coming from the U.S. of any of the big banks. It is ranked as the 10th largest U.S. bank, and for the financial year 2016 it earned almost a third of its net income from its U.S. retail banking operations.

Trump's plans to boost U.S. economic growth through fiscal stimulus and reduced regulation, particularly of the financial services sector, will act as a powerful tailwind for Toronto-Dominion.

You see, any reduction in the U.S. regulation of banks, such as repealing the Dodd-Frank Act, will reduce the regulatory burden leading to lower compliance and operational costs. Higher U.S. economic growth will also lead to interest rate hikes, which will boost the margins banks are able to generate on loans, making loans more profitable.

The confluence of these events will act as a powerful tailwind for Toronto-Dominion's U.S. business, causing margins and earnings to grow.

Another financial stock to benefit from Trump's fiscal stimulus and his push to minimize financial regulation is **Sun Life Financial Inc.** (TSX:SLF)(NYSE:SLF).

It already has established a sizeable U.S. operational footprint, and for 2016 it earned almost 30% of its total revenue from that business. For the year, U.S. gross insurance premiums rocketed by 29%

compared to 2015 and fee income was up by 9%, while sales shot up by 16%.

Furthermore, it has been forecast that by 2018, almost half of Sun Life's core earnings will come from south of the border. Not only will stronger economic growth and reduced regulations assist earnings growth, but planned corporate tax cuts will also give Sun Life's core earnings a solid lift.

Finally, there is **Precision Drilling Corp.** (TSX:PD)(NYSE:PDS), which has suffered because of the prolonged slump in oil. It earns almost half of its revenue from south of the border and will benefit from Trump's plans to implement policies that will lead to U.S. energy independence.

Key among these policies are Trump's plans to allow for drilling on U.S. federal land and reduce the regulations governing the oil industry. Trump hopes that this coupled with planned corporate tax cuts will lead to lower costs and incentivize oil producers to ramp up activities, which bodes well for Precision Drilling.

The surge in oil prices since the OPEC production deal, which came into force in January 2017, has also led to an increased operational tempo among oil companies operating in the U.S.

This can already be seen in Precision Drilling's fourth-quarter 2016 results, whereby active rigs in the U.S. at the end of the quarter totaled 39 — an increase of 10 compared to the previous quarter. The company remains well positioned to take advantage a rebound in drilling activity, having acquired 48 well-service rigs and ancillary equipment in December 2016.

So what?

All three stocks stand to benefit from Trump's policies because of their significant exposure to U.S. economic growth, the proposed reduction in regulation, and lower corporate taxes. These will act as powerful tailwinds, driving higher earnings and increased profitability.

CATEGORY

1. Investing

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1. NYSE:PDS (Precision Drilling Corporation)
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3. TSX:PD (Precision Drilling Corporation)
4. TSX:SLF (Sun Life Financial Inc.)
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